

Redressing the balance

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Hugo Chávez Frías is a remarkably popular president. First elected to office in 1999, he has enjoyed a protracted honeymoon. The most recent opinion poll surveys demonstrate that with seven months to go until the next presidential election, he continues to command majority support. Facing no significant opposition challenge and with 55 per cent of the electorate behind him, Chávez is on course to renew his mandate for a further six years.

Chávez's domestic support stems from three inter-related factors; his government's focus on reducing poverty and exclusion; the administration's nationalistic economic policies, particularly in relation to the oil sector and Chávez's scathing criticism of the US, neo-liberal economics and the old political order in Venezuela.

When Chávez won office seven years ago he inherited a country in economic and political crisis. Although Venezuela has an abundance of natural resource and mineral wealth, it was badly misgoverned. Venezuela has the sixth largest conventional oil reserves in the world at 77.8 billion (bn) barrels, 80 per cent of South America's gas reserves (151 trillion cubic feet), an estimated 14.6bn tonnes of iron ore reserves, 10.2bn tonnes of high quality coal reserves and 12 per cent (10,000 tonnes) of the world's gold reserves.

This potential wealth was not effectively or equitably exploited by the Social Democrat and

Christian Democrat parties that controlled Venezuela's government and state institutions from democratisation in 1958 through to the victory of Chávez, a political outsider, in 1998. Corruption, patronage, boom-bust spending patterns and an over-reliance on oil export revenues eroded the social and economic advances that were enjoyed by all Venezuelans during the oil price highs of the 1970s.

By the late 1990s, 65 per cent of the population lived in poverty, nearly half of this number in extreme poverty. The once comprehensive and well-funded model of public education, health care and social security had collapsed. Deficits in housing, land and credit provision were pronounced and stark inequalities between socio-economic groups had become entrenched. In 1998, the year of Chávez's election victory, the richest 20 per cent of the population accounted for 53.4 per cent of household income, while the poorest 20 per cent accounted for less than 3 per cent of household income. The macro-economic picture was equally bleak, with unemployment in double digits and half of the work force located in the informal sector. The inflation rate was the highest in the region having peaked at 103 per cent in 1996 and the price of Venezuelan oil exports had fallen back to under US\$10 per barrel, forcing the outgoing administration of President Rafael Caldera into budget cuts of \$7 bn.

Alienated, overlooked and marginalised by the traditional parties, the electorate turned to Chávez. A virulent opponent of PDVSA's proposed privatisation and a critic of the company's strategy of maximising production and internationalising its operations, Chávez pledged to put PDVSA at the service of the people, to use the oil export revenues as a motor for equitable economic development and to cap production levels so as to increase and stabilise prices – objectives that have now been achieved.

Venezuela's situation in 1998 was not unique. Poverty

The Chávez government's 'Missions' have eliminated illiteracy in Venezuela



Gross Domestic Product 2001-2005	
2001	3.7
2002	3.4
2003	-8.9
2004	-7.7
2005	17.0

and inequality was and continues to be pronounced across the continent. According to the United Nations, 42.9 per cent of the 524 million population of South America live in poverty, 18.6 per cent in extreme poverty. As in Venezuela, this translated into a popular rejection of orthodox economic solutions that generated economic growth, but at the cost of deepening inequality. It also led to a jettisoning of mainstream political parties and support for left of centre options in Brazil, Chile, Argentina, Uruguay and Bolivia. Mexico, Peru and Nicaragua may yet follow this trend.

Venezuela was at the helm of this regional political shift and Chávez has led the search for alternative economic development strategies. The Chávez government has sought to address the legacy of political and economic exclusion that it inherited through the promotion of 'participatory democracy' and social policy initiatives called the Missions. These operate in education, housing, health care, employment training and welfare provision. As a result of the Missions and major investments in school, university, clinic and hospital construction, illiteracy has been eliminated, 1.5 million Venezuelans have been reincorporated into secondary education, access to higher education has been extended to over 800,000 students and 17,000 Cuban doctors have conducted over 40 million consultations among residents of poor communities. Treatment for AIDS and cancer is now free, over 12,000 Venezuelans have received treatment for ophthalmic problems, a chain of state subsidized pharmacies has been established and 14,000 subsidised food outlets serving 42 per cent of the domestic market have been set up to tackle the country's nutritional deficit.

These social capital investments have been financed by the strong rise in oil export revenues and improvements in the collection of non-oil taxation. In 2003, PDVSA set aside US\$29 million for social investment. This leapt to over US\$3 billion in 2004 and 2005.

Government policy initiatives and financial support have led to the formation of 6,814 co-operatives, credit facilities for women and community organisations have been introduced, 3 million hectares of agricultural land and housing titles have been distributed and a major low-cost housing program launched. Chávez is consequently likely to be re-elected in December because his government has prioritised the needs of the poorest sectors. Outside of Venezuela, Chávez's commitment

to, and rhetoric of social justice has made him a hero to millions of impoverished South Americans.

Chavez's regional and domestic popularity poses a real dilemma for the US government and foreign policy allies such as the UK. The American administration has maintained a jaundiced view of Chávez and his 'Bolivarian revolution' since President Bush assumed office in 2000. Chávez is seeking to diversify Venezuela's historically strong commercial ties with the US – the destination of around 65 per cent of Venezuela's exports – to non-traditional partners such as Iran, China and Cuba. He is also committed to ending America's 'imperialist' domination of South America, the perceived denigration of the region's culture by its great neighbour to the North and the export to South America of neo-liberal economic strategies devised in Washington. As a counter to economic orthodoxy and the hemispheric free trade agenda promoted by the White House, Chávez has proposed a 'Bolivarian Alternative' (ALBA) of regional integration based on the exploitation of comparative advantages and the promotion of social justice. Bolivia and Cuba are core partners in the ALBA, while Brazil and Argentina have emerged as important partners in Venezuela's drive for energy and financial integration.

The Venezuelan government's foreign and hydrocarbons policies have raised concerns in the US over energy security – with Venezuela supplying a strategically important 15 per cent of US oil imports – and the mobilisation of anti-American sentiment in the region. To counter this, the US has sought to isolate Chávez and it has contributed substantial sums of money to the political campaigns of the unpopular and eclectic anti-Chávez opposition movement. However domestic and international criticism of Chávez has served only to elevate his international appeal and influence, while attempts to displace his administration

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Flying the flag: Chávez's economic nationalism commands widespread support



Foreign Reserve Position 2001-2005 (end period)	
2001	\$15.9 bn
2002	\$12.3 bn
2003	\$20.7 bn
2004	\$23.5 bn
2005	\$23.9 bn

Rather than discrediting Chávez, it is more important that critics understand the drivers of his popular appeal and engage with the administration



Chávez's pledge to put PDVSA at the service of the people has made the oil sector an engine for social development

through unconstitutional activity (including a coup attempt and general strike in 2002) and constitutional activity (a recall referendum in 2004) have proved counter-productive. 'Containing' Chávez requires the development of a cohesive pro-poor agenda and serious efforts to address the unequal terms under which South America has been integrated into the global economy. There is no sign to date that this is being effectively addressed by international development agencies or financial institutions.

This reality and Venezuela's strategic importance as a major oil producer, underscores the need for Chávez's critics to engage with the Venezuelan administration and to assume a more nuanced understanding of the political process at play in the country. Chávez is a highly pragmatic actor. His administration is seeking to restructure Venezuela's economy to ensure that the country is positioned to address the social, commercial and energy challenges of the future. Despite somewhat hysterical claims that the administration is 'authoritarian' and 'communist', the government is democratically elected and Venezuela continues to offer significant investment opportunities for the private sector.

Critics of the complex changes being undertaken have tended to interpret developments in the country through the lens of the Cold War and the intellectually vacuous concept of 'populism'. As a result, the long-term

Consumer Price Inflation 2001-2005	
2001	12.5
2002	22.4
2003	31.1
2004	21.7
2005	16

impact of *Chavismo* in Venezuela and South America has been underestimated; the changes at play have been inadequately contextualised and the openings available to investors have been underestimated. The rules of the game have undoubtedly changed as has the political landscape. A return to the pre- Chávez *status quo ante* is unthinkable. In this context, rather than discrediting Chávez, it is more important that critics understand the drivers of his popular appeal and engage with the administration. His government is redefining political, economic and commercial relations on the continent.

Investment in Venezuela is seen to be risky as a result of ongoing political turbulence, the administration's heterodox economic policy approach and the evolving status of investment regulations. However Venezuela is certainly not closed to foreign investment, as developments in the telecommunications, banking and hydrocarbon sectors demonstrate, and with GDP growth of 17.9 per cent in 2005 and an international reserve of US\$25 billion, the economy is booming. What has altered is the balance of power between the government, the US and investors. As the vice-president of PDVSA, Dr Bernard Mommer outlined during a recent visit to London, the private sector and traditional trading partners must accept that they can no longer set the terms for their investments in the country. With energy prices reaching new highs, the capacity to set the terms of engagement lie with the Venezuelan state. This reality is increasingly accepted by foreign and domestic companies, including international oil companies (IOCs). Sixteen IOCs migrated to new, less favorable contracts with PDVSA last month, underscoring recognition that reasonable returns on investment can still be expected in a 'social economy'. The extent to which Venezuela will remain a 'win-win' scenario for investors and the poor remains open to question but for now, Chávez and his revolution cannot be isolated nor ignored. **F**